

ARGENTINA
TRADE REPORT

ECONOMIC SECTION

U.S. EMBASSY

BUENOS AIRES

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SUMMARY

Argentine exports increased 17 percent in the first seven months of 2003. Growth was concentrated in agriculture and petroleum with industrial exports declining 3 percent. Imports also increased significantly, but from a much smaller base, and Argentina is headed for another record trade surplus. The data reveals three emerging trends: The move to a floating exchange rate regime has significantly increased Argentina's export competitiveness and is the key contributor to the ongoing economic recovery; Argentina is becoming more dependent on the export of soybeans, particularly to China; and Argentina is losing market share in Brazil.

ARGENTINE TRADE PICTURE IMPROVING

Statistics for the first seven months of 2003 show Argentina's overall trade picture is improving. Total exports grew 17 percent relative to the comparable period in 2002. Growth was 33 percent for primary products (mostly agriculture), 24 percent for agro-industrial products, and 18 percent for petroleum and derivatives. Industrial exports declined 3 percent.

Import growth was also brisk at 41 percent, but the real increase was small given the dramatic 56 percent decline in imports after the 2002 devaluation and the smaller base from which 2003 import growth is calculated. Imports for the first seven months of 2003 were only 44 percent of the same period in 2001, the year before devaluation. Import growth was 55 percent for capital goods, 45 percent for intermediate goods, 6 percent for fuel, 39 percent for capital parts and accessories, 18 percent for consumer products and 126 percent for car parts when comparing the first seven months of 2003 to the same period in 2002. NOTE: This composition of imports reflects substantial investment and intermediate goods but little recovery in consumer demand for imported goods.

Total exports for the first seven months were US\$17.3 billion and total imports were US\$7.1 billion, yielding a record trade surplus of US\$10.2 billion. The total surplus for trade in goods was US\$9.6 billion in 2002 and US\$2.6 billion in 2001.

TOTALS HIDE NARROW BASE FOR RECORD SURPLUS

The 17 percent overall increase in exports conceals the fact that Argentina's export growth sits on a narrow base. Export growth is agricultural and petroleum-based. Ten products account for 104 percent of the export increase. (The figure is greater than 100 percent because exports declined in some areas, such as industrial products.) 69 percent of the increase is attributed to soybeans or soybean products. Exports of corn comprise 14 percent of the increase and petroleum and petroleum products account for 13 percent. Therefore, 96 percent of Argentina's export increase is due to three commodities (and their derivatives)

Argentina's export losers were textiles (-17 percent), machines and electrical products (-11 percent), and land transport products (-13 percent). Moreover, the 3 percent decline in industrial exports thus far in 2003 comes after a 9 percent drop in 2002. One positive and partial explanation of the decline in industrial exports is that internal demand for Argentine products has increased along with the price of imports. Consequently, some internal production is not being exported in order to meet rising domestic demand. However, it is also true that investment in new capital remains weak and that industries that could otherwise have taken advantage of export possibilities after devaluation are those that received little or no investment during convertibility. Exporters in the credit-starved local economy also have difficulty finding the necessary working capital to finance increased production, pay export taxes, which must be paid prior to the actual export, or self-finance exports in the absence of letters of credit. However, over time, Argentina's newfound export competitiveness should provide opportunities for other sectors that had been priced out of the market during convertibility.

ARGENTINA IS BECOMING MORE DEPENDENT ON SOY EXPORTS

Argentina's export-led recovery is highly dependent on increased soybean exports, and changing conditions in the world market could dramatically affect the Argentine recovery. Using data available through May 2003, the volume of Argentine soy exported worldwide increased 64 percent and the average unit price was up

22 percent compared to the same period in 2002. Note that export volume had declined 21 percent in 2002 compared to the same period in 2001. USDA's July 2003 report on Argentine Oilseeds and Products notes concerns about Argentina's increasing susceptibility to market volatility as soybeans become the dominant agricultural commodity. Argentina's planted soy acreage for 2003, at 12.9 million hectares, has tripled within the last 10 years. That acreage exceeds total planted grain acreage (corn, wheat and rice) by 1 million hectares. Farmers have also held on to more than 21 million tons of soybeans (worth more than US\$4.2 billion at current prices), preferring to keep their assets in product rather than sell/export it and place their money in the local banking system. The USDA has lowered the projection for US soy production and exports by 10 percent, indicating that soy prices should remain strong for the near future. Moreover, Brazil's continued inability to export genetically modified soy to China bodes well for Argentina. Consequently, the potential dangers of increased dependence on one product lie in the more distant future.

TABLE ONE
ARGENTINE EXPORTS
(USD MILLIONS)

Year	Soybean Tons	Soy Oil Thousand Tons
1998	2,843	4,062
1999	3,066	5,139
2000	4,130	2,977
2001	7,365	3,338
2002	6,163	3,400
2003*	3,792	1,491

* Through May only

... WITH MUCH OF THE INCREASE GOING TO CHINA

Almost half (45 percent) of the upsurge in soybean exports is due to increased exports to China. Data through July 2003 show that total exports to China grew 171 percent over the same period in 2002; exports of primary products (mostly agricultural) increased 215 percent and exports of agro-industrial products increased 180 percent. Most of this is soy

or soy product such as soybean oil and meal. China is now Argentina's fourth largest trading partner.

ARGENTINA'S EXPORT MARKETS ARE CHANGING

Exports to Mercosur in the first half of 2003 declined 11.2 percent (US\$2.7 billion), with most of the decline due to a continued fall in exports to Brazil. Exports to Brazil declined 12.3 percent to US\$2.3 billion. Exports to NAFTA countries were up 12 percent (US\$2 billion); exports to the European Union increased 7.5 percent (US\$2.8 billion); and exports to Chile increased 22 percent (US\$1.6 billion). Exports to China were up 171 percent.

TABLE TWO
ARGENTINE EXPORT MARKETS
(distribution by percent of total)

Argentina's top export markets are:

	2002	2003 Jan-Jun
Brazil	19	16
Chile	12	11
United States	11	10
China	4	9
Spain	5	5
Netherlands	4	4
Italy	3	3
Mexico	3	3
Germany	3	3
India	3	3
Rest of World	34	33

Analysts point to Brazil's struggling economy to explain Argentina's reduced exports to its dominant neighbor. However, Argentina's share of the Brazilian market has also declined, meaning that other countries are beating Argentina in access to Brazil and that the decline is not only the result of Brazil's

economy. Argentina accounted for 13.8 percent of Brazilian imports in 1998. This declined to 10.1 percent in 2002, and the trend has continued in 2003. The reverse has not been the case; Brazil's share of the Argentine import market increased from 28 percent in 2002 to 32 percent in the first half of 2003. In contrast, the U.S. share has slipped from 20 percent to 17 percent during the same period.

TANBLE THREE
BRAZILIAN IMPORTS FROM ARGENTINA
 (as percent of total)

Year	Percent
1997	13.2
1998	13.8
1999	11.8
2000	12.2
2001	11.1
2002	10.1

 COMMENT

Argentina's new found export competitiveness is yielding record trade surpluses. At the same time, Argentina is becoming more dependent on the export of soybeans, particularly to China; and Argentina is losing market share in Brazil. The agricultural sector is switching production from corn, wheat, cattle (beef and dairy) and pork to soybeans, taking advantage of a recent increase in world prices and productivity gains stemming from the use of genetically modified soybeans. The switch may be lucrative in the short run, but 26 percent of Argentina's exports are now soy-related, making the country dependent on one product. There are also environmental concerns raised by the extensive use of a single crop. Argentine industry has not been able to take advantage of devaluation to increase exports, largely due to declining exports to Brazil. Devaluation may have made Argentina more price-competitive but external and internal factors seem to be limiting the potential trade benefits of devaluation.